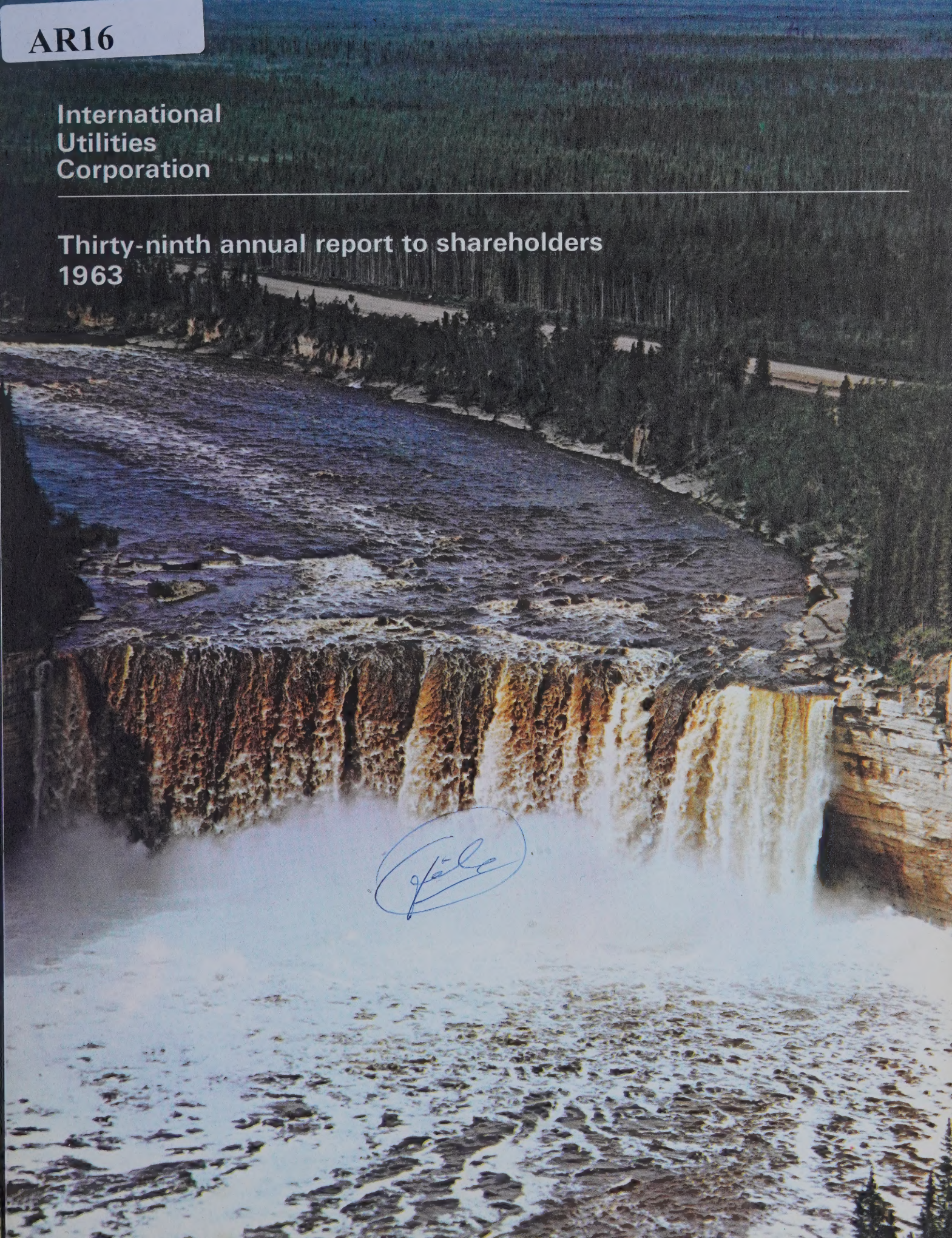
AR16

International Utilities Corporation

Thirty-ninth annual report to shareholders 1963



Subsidiaries



The areas covered in the maps on the following page are indicated in blue shading for the province of Alberta and blue outline for the inset map.

Canadian companies

Canadian Western Natural Gas Company Limited (Canadian Western)
Distributes natural gas in the cities of Calgary and Lethbridge, the town of Banff and 81 other communities in southern Alberta. Population of the area served is about 393,000.

Northwestern Utilities, Limited (Northwestern)
Distributes natural gas in the Capital City of Edmonton, the cities of Red Deer, Camrose and Wetaskiwin and 75 other communities in central Alberta. Population of the area served is about 451,000.

Canadian Utilities, Limited (Canadian Utilities) and its subsidiaries, Fort McMurray Power Company Limited, Yukon Hydro Company Limited and The Yukon Electrical Company Limited
Supply electricity to 252 communities in central and northern Alberta, 1 in Saskatchewan and 9 in the Yukon Territory. Serve 139 rural electrification associations, 36 oilfields and 13 other groups. The area served has an estimated aggregate population of 159,000.

Northland Utilities Limited (Northland Utilities) and its subsidiaries, Northland Utilities (B.C.) Limited and Uranium City Power Co. Ltd.
Supply electricity to 37 communities in northern Alberta and to Hay River, Northwest Territories and Uranium City, Saskatchewan. Serve 32 rural electrification associations. Distribute natural gas to 25 communities in northern Alberta and to 3 in British Columbia. A population of about 36,000 is served with electricity and about 42,000 with natural gas.

The North West Fidelity Trust Company, Limited
A fiscal company which finances the purchase of homes for system employees and acts as agent for the system companies in various matters.

Gotaas-Larsen shipping companies

Ocean Oil Operation, Inc. (Panama) and its subsidiaries, Ocean Oil Operation, Inc. (Liberia), Ocean Oil Associates, Inc. (Liberia), Ocean Oil Carriers, Inc. (Liberia), Ocean Oil International, Inc. (Liberia) and Gotaas-Larsen Limited (Nassau), which in turn has four subsidiaries in South America.

Ocean Oil Traders, Inc. (Liberia)
Ocean Oil Transport, Inc. (Liberia)
Emerald Shipping Corporation (Liberia)
Emerald Shipping Corporation (Panama)
Gotaas-Larsen, Inc. (U.S.A.)
Gotaas-Larsen Corporation (U.S.A.)
The above companies own and operate four oil tankers and one bulk carrier, operate one tanker and six bulk carriers under charters, and are building three new tankers and two refrigerator ships.

Other United States companies

Brown Brothers Contractors, Inc. (Brown Brothers) and its affiliated trucking company B & B Carriers, Inc.
Brown Brothers is engaged in the recovery of steel and iron scrap, the processing of slag and crushed stone and sale of such products. Principal operations are located at Conshohocken, Coatesville, Midland and Phoenixville, Pennsylvania and Oxford, New Jersey.

Corporacion Chatarraven, C.A.
This company began steel scrap recovery operations in Venezuela in 1964.

International Utilities Inc.
An investment company which holds a portfolio of investments in U.S. companies.

International Utilities Company
A service organization for the system companies.

Contents

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Comparative ten-year record	24

THE COVER: Alexandra Falls, on the Hay River, Northwest Territories. The town of Hay River, on Great Slave Lake at the river mouth, is served with electricity by Northland Utilities.

Highlights

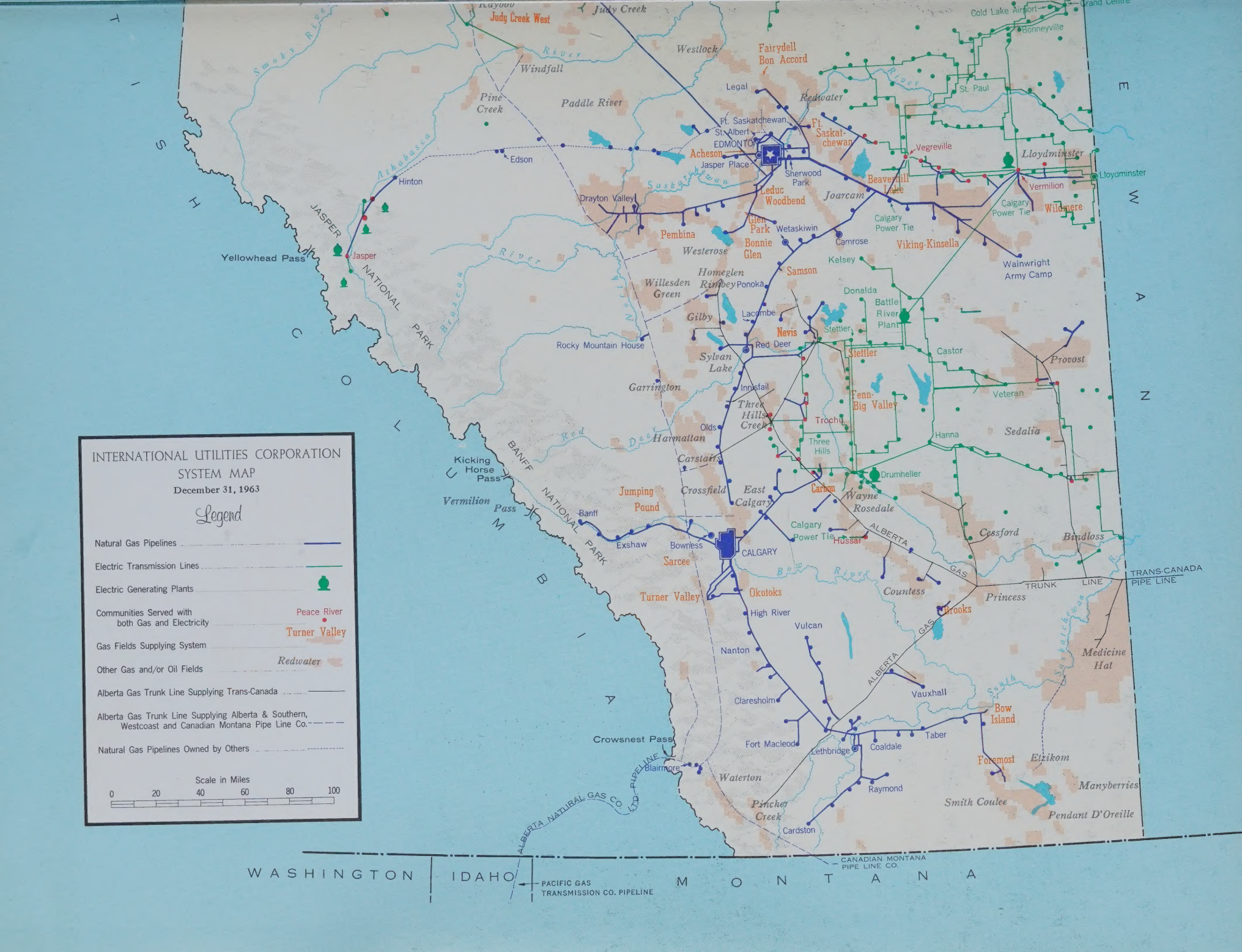
FINANCIAL	1963	1962	1953
Gross income:	(Canadian currency—see note 1, page 20)		(U.S. currency)
Natural gas	$ 39,471,085	$ 37,830,206	$14,054,102
Electricity	12,205,406	11,393,391	2,895,765
Rentals	654,124	657,920	–
Interest and dividends	1,520,603	1,113,825	493,140
Net earnings:			
U.S. industrial companies	416,115	287,706	–
Gotaas-Larsen companies (four months only)	619,906	–	–
Propane gas, appliances and equipment	–	–	785,597
Miscellaneous (net)	19,069	103,654	106,251
Total gross income	**$ 54,906,308**	**$ 51,386,702**	**$18,334,855**
Consolidated net income:			
Excluding gain on disposition of investments	$ 7,802,479	$ 7,032,806	$ 2,233,399
Gain on disposition of investments, less U.S. capital gains tax, etc.	1,326,788	1,530,163	328,990
Total	**9,129,267**	**8,562,969**	**2,562,389**
Provision for dividends on $2 preferred shares	1,257,076	1,259,116	(see note)
Balance	**$ 7,872,191**	**$ 7,303,853**	**$ 2,562,389**
Shares outstanding:			
$2 convertible preferred	581,496	582,934	–
Common (see Note)	5,572,563	4,975,918	4,842,168
Earnings per common share (based on average shares outstanding during the year):			
Excluding gain on investments	$ 1.26	$ 1.16	$.46
Including gain on investments	1.52	1.47	.53
Dividends per common share	.80	.77½	.35
Shareholders' equity (consolidated)	96,787,712	79,523,747	27,410,344
Unrealized market appreciation in investments (consolidated)	10,520,872	2,876,762	2,485,813
Gross property additions	16,022,000	12,169,540	9,235,000
Total assets (consolidated)	$217,539,578	$190,531,419	$75,634,107

STATISTICAL			
Number of customers end of year:			
Natural gas	222,822	214,806	110,388
Electric	62,523	61,274	28,408
Total	**285,345**	**276,080**	**138,796**
Natural gas sold in MCF (thousand cubic feet)	115,007,585	109,333,773	54,024,000
Electricity sold in KWH (kilowatt hours)	371,261,227	333,087,635	82,017,000

Note: The number of common shares, earnings and dividends per share for prior years have been adjusted to basis of shares outstanding after giving effect to (1) the 100% conversion of $1.40 convertible preferred stock, (2) the share-for-share distribution of common stock in 1957 and (3) the two-for-one stock split which became effective May 15, 1963.

See page 24 for a comparative ten-year summary of net earnings and other statistics.


NORTHWEST TERRITORIES
Fort Smith
Uranium City
Great Bear Lake
Mackenzie River
Great Slave Lake
Slave River
Athabasca Lake
ALASKA
YUKON TERRITORY
NORTHWEST TERRITORIES
Dawson
Beaver Creek
Carmacks
Destruction Bay
Haines Junction
Whitehorse
Carcross
Teslin
Watson Lake
Hay River
Pine Point
BRITISH COLUMBIA
ALBERTA
Fort Chipewyan
Fort Vermilion
Peace River
HIGHWAY
Raddle Prairie
ALBERTA
SASKATCHEWAN
ALASKA HIGHWAY
MACKENZIE
Athabasca Oil Sands
Fort McMurray
Worsley
Boundary Lake
Worsley
Ft. St. John
Peace River
Grimshaw
Peace River
Fairview
Hamelin Creek
Pouce Coupe
Whitelaw
Tangent
Normandville
WESTCOAST TRANSMISSION LINE
Dawson Creek
Gordondale
McLennan
Falher
Heart River
Rycroft
Saddle Hills
Lesser Slave Lake
High Prairie
Grande Prairie
Valleyview
Sturgeon Lake South
Swan Hills
Virginia Hills
Athabasca River
Calgary Power Tie at Plamondon
Lac La Biche
BRITISH COLUMBIA


INTERNATIONAL UTILITIES CORPORATION
SYSTEM MAP
December 31, 1963
Legend
Natural Gas Pipelines
Electric Transmission Lines
Electric Generating Plants
Communities Served with both Gas and Electricity
Peace River
Turner Valley
Gas Fields Supplying System
Redwater
Other Gas and/or Oil Fields
Alberta Gas Trunk Line Supplying Trans-Canada
Alberta Gas Trunk Line Supplying Alberta & Southern, Westcoast and Canadian Montana Pipe Line Co.
Natural Gas Pipelines Owned by Others
Scale in Miles
0 20 40 60 80 100
Judy Creek West
Judy Creek
Westlock
Fairydell
Bon Accord
Cold Lake Airport
Bonneyville
Grand Centre
Windfall
Pine Creek
Paddle River
Legal
Redwater
St. Paul
Ft. Saskatchewan
St. Albert
EDMONTON
Acheson
Jasper Place
Sherwood Park
Vegreville
Lloydminster
Vermilion
Wildmere
Edson
Hinton
Drayton Valley
Leduc
Woodbend
Beaverhill Lake
Joarcam
Calgary Power Tie
Pembina
Glen Park
Wetaskiwin
Camrose
Viking-Kinsella
Wainwright Army Camp
Yellowhead Pass
Jasper
Westerose
Bonnie Glen
Kelsey
Homeglen
Rimbey
Ponoka
Samson
Willesden Green
Donalda
Battle River Plant
Gilby
Lacombe
Stettler
Nevis
Red Deer
Rocky Mountain House
Sylvan Lake
Castor
Provost
Garrington
Innisfail
Three Hills Creek
Penn-Big Valley
Veteran
Trochu
Olds
Harmattan
Three Hills
Hanna
Sedalia
Carstairs
Drumheller
Kicking Horse Pass
Vermilion Pass
Jumping Pound
Crossfield
East Calgary
Carbon
Wayne
Rosedale
Banff
Calgary Power Tie
Hussar
Cessford
Bindloss
Exshaw
Bowness
CALGARY
Sarcee
Turner Valley
Okotoks
Countess
Princess
TRANS-CANADA PIPE LINE
TRUNK LINE
Brooks
High River
Vulcan
Nanton
Medicine Hat
Vauxhall
Claresholm
Bow Island
Crowsnest Pass
Fort Macleod
Lethbridge
Coaldale
Taber
Foremost
Etzikom
Blairmore
Waterton
Raymond
Manyberries
Pincher Creek
Smith Coulee
Pendant D'Oreille
Cardston
ALBERTA NATURAL GAS CO. LTD. PIPELINE
CANADIAN MONTANA PIPE LINE CO.
WASHINGTON
IDAHO
PACIFIC GAS TRANSMISSION CO. PIPELINE
MONTANA
ALBERTA
SASKATCHEWAN
BRITISH COLUMBIA
JASPER NATIONAL PARK
BANFF NATIONAL PARK
Smoky River
Athabasca River
Brazeau River
Red Deer River
Saskatchewan River
South Saskatchewan River
Bow River

International Utilities Corporation

200 University Avenue, Toronto 1, Ontario, Canada

Directors

Chairman: H. R. Milner, Q.C., Edmonton, Alberta
Howard Butcher, III, Villanova, Pa.
Eric M. Butler, Upper Montclair, N.J.
John C. Dale, Edmonton, Alberta
Robert C. Heim, Briarcliff Manor, N.Y.
H. Irgens Larsen, Armonk Village, N.Y.
F. Clarence Manning, Calgary, Alberta
Willis S. McLeese, Toronto, Ontario
Norman S. Robertson, Q.C., Toronto, Ontario
John M. Seabrook, Salem, N.J.
Theodore S. Watson, Greenwich, Conn.
Bruce F. Willson, Calgary, Alberta
Dennis K. Yorath, Edmonton, Alberta

Directors of International Utilities Company

Howard Butcher, III, Villanova, Pa.
Hadley Case, Greenwich, Conn.
J. Paul Crawford, Jr., Pennington, N.J.
Sir Geoffrey Crowther, London, England
Robert C. Heim, Briarcliff Manor, N.Y.
William M. Hunt, Cohasset, Mass.
H. Irgens Larsen, Armonk Village, N.Y.
Walter P. Miller, Jr., Philadelphia, Pa.
H. R. Milner, Q.C., Edmonton, Alberta
Duncan M. Spencer, Bedford Hills, N.Y.
Wendell E. Warner, Wayne, Pa.
Theodore S. Watson, Greenwich, Conn.
William M. Weaver, Jr., New York, N.Y.
Frederick B. Wilcox, Providence, R.I.

Officers of International Utilities Corporation

Howard Butcher, III, President
Eric M. Butler, Vice President and Secretary
John C. Dale, Vice President
(President of Canadian Utilities and Northland Utilities)
H. Irgens Larsen, Vice President
(President of Gotaas-Larsen, Inc.)
Norman S. Robertson, Q.C., Vice President
John M. Seabrook, Vice President
(President of Brown Brothers)
Dennis K. Yorath, Vice President
(Chairman of Canadian Western and Northwestern)
William F. Egan, Treasurer and Assistant Secretary
John K. Eaton, Assistant Secretary and Assistant Treasurer
William H. Walker, Assistant Secretary and Assistant Treasurer

Other Operating Company Executives

Bruce F. Willson
President of Canadian Western and Northwestern

Kenneth L. MacFadyen
Vice President and Comptroller of Canadian Western, Northwestern, Canadian Utilities and Northland Utilities

John E. Maybin
Vice President of Canadian Western and Northwestern

James A. Scott
Vice President of Canadian Western and Northwestern

Murray E. Stewart
Vice President and General Manager of Northwestern, Vice President of Canadian Western

Egerton W. King
Executive Vice President of Northland Utilities

R. Cody McPherson
Vice President of Northland Utilities

John L. Schlosser
Vice President of Northland Utilities

Robert W. Wolcott, Jr.
Vice President and General Manager of Brown Brothers

George L. Smith
Vice President, Secretary and Treasurer of Brown Brothers

H. D. George
Vice President of Brown Brothers

Christian J. Mahlstedt
Vice President of Gotaas-Larsen, Inc.

Harry M. Hunter
General Manager of Canadian Western

John N. Ford
General Manager of Canadian Utilities

Douglas Mitchell
General Manager of Northland Utilities

Harvey S. Greenway
Secretary of Canadian Western

Cyril L. Metcalfe
Secretary of Northwestern

Thomas A. Montgomery
Secretary of Canadian Utilities

William A. Sullivan
Secretary of Northland Utilities

V. Kristoffersen
Secretary of Gotaas-Larsen, Inc.

W. Lloyd McPhee
Treasurer of Canadian Western

John B. Whelihan
Treasurer of Northwestern

Allen M. Anderson
Treasurer of Canadian Utilities

Edward G. Ringrose
Treasurer of Northland Utilities

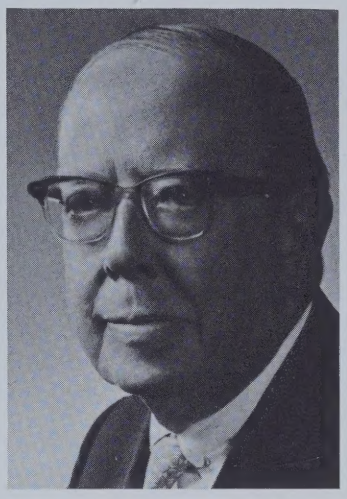
Louis V. Krall
Treasurer of Gotaas-Larsen, Inc.

The Corporation's preferred and common shares are listed on the New York, Montreal, Toronto and Philadelphia-Baltimore-Washington stock exchanges. Empire Trust Company in New York and Montreal Trust Company in Montreal, Toronto and Calgary are the transfer agents. The registrars are Chemical Bank New York Trust Company and Crown Trust Company.

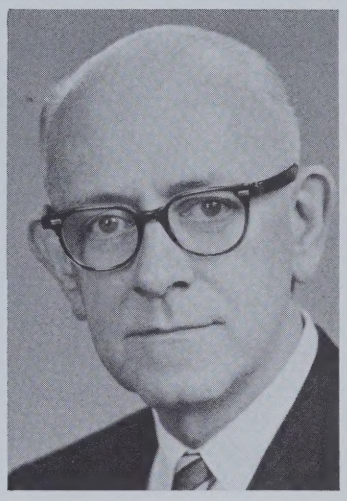
Executive directors



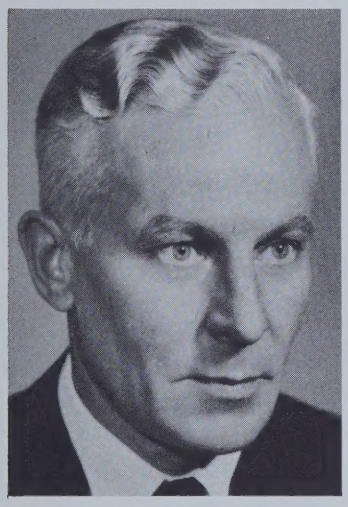
Howard Butcher, III



H. R. Milner, Q.C.



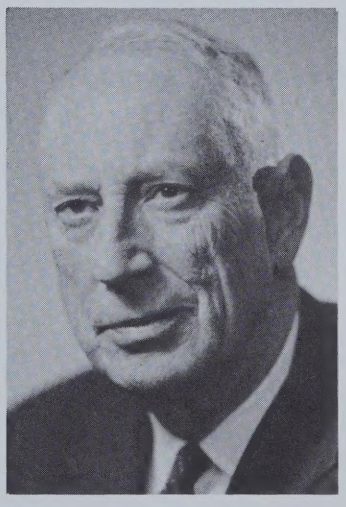
Eric M. Butler



John C. Dale



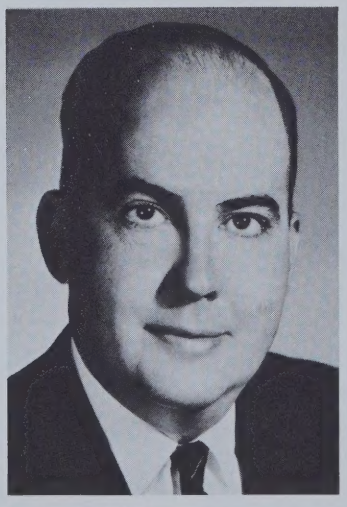
H. Irgens Larsen



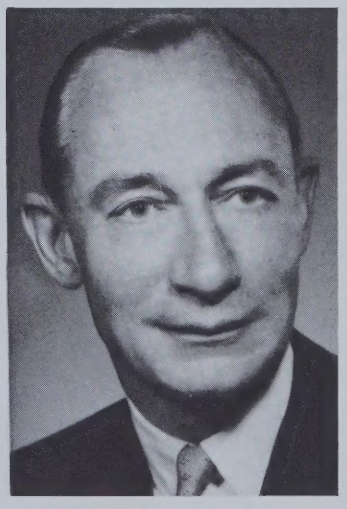
Norman S. Robertson, Q.C.



John M. Seabrook



Bruce F. Willson



Dennis K. Yorath

To the shareholders

We are happy to report on another successful year of operation for our Corporation and its system companies. The natural gas and electric operations in western Canada again established new records in customers served, gross revenues and volume of business. The year's highlights appear on page one and the impressive ten-year record of growth is shown at the end of this report.

Consolidated net earnings, excluding gain on disposition of investments, amounted to $7,802,479 as compared with $7,032,806 in 1962. Such net earnings were equal to $1.26 per share on the average number of common shares outstanding during the year, an increase of 10¢ per share. Net gains on disposition of investments amounted to $1,326,788 after provision for capital gains tax and expenses. During the past ten years such net gains aggregated $17,513,716. Year-end prices of marketable investments exceeded their cost by more than $10,500,000.

The electric utilities reported good gains in net earnings in spite of reduced rates for some of their rural and residential customers. Net earnings from the natural gas operations were down slightly, largely due to the warmer weather. It was an extremely good year for the steel scrap recovery operations of Brown Brothers.

You were advised in our interim reports of the acquisition last August of Gotaas-Larsen, Inc., a ship operating company, and its various foreign flag shipping affiliates. This was accomplished by an exchange for common shares of our Corporation. Such investments were recorded on our books at an aggregate cost of $13,214,236 in Canadian funds, based on a value of $23 per share for the 574,532 common shares issued in exchange. The combined net income of the Gotaas-Larsen companies amounted to $1,372,891 (U.S.) for the year 1963. Earnings applicable to the period of our ownership after deducting a reserve for possible future income taxes, a net amount of $461,131 (U.S.), is included in our consolidated net income for 1963.

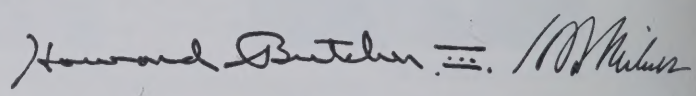
The shipping business is, of course, an entirely new venture for us, but it is in line with our established policy to diversify operations. Mr. H. Irgens Larsen and his associates, who have operated successfully for many years, will continue to administer the business. Mr. Larsen has been elected a Vice President and Director and he has a very substantial stock interest in the Corporation.

You were informed last year of our proposal to the U.S. Bonneville Power Administration (BPA) to construct an extra high voltage direct-current power transmission line, connecting the BPA system on the Washington-Oregon border with southern California. Long and involved negotiations and studies in connection with this and other projects have been conducted over the past several months. This is described briefly on page 12.

Regular quarterly common share dividends were paid last year at the rate of 20¢ per share in Canadian funds. Total payments were 80¢ per share as compared with 77½¢ paid in 1962. This maintains our record of declaring common share dividends in increased amounts in every one of the past nineteen years. The foregoing rates are stated after giving effect to the two-for-one split of the outstanding common shares which became effective May 15, 1963.

The efficiency and loyalty of our employees are most important factors in the success of our varied operations. Their continued cooperation is sincerely appreciated.

For the Board of Directors



President — Chairman

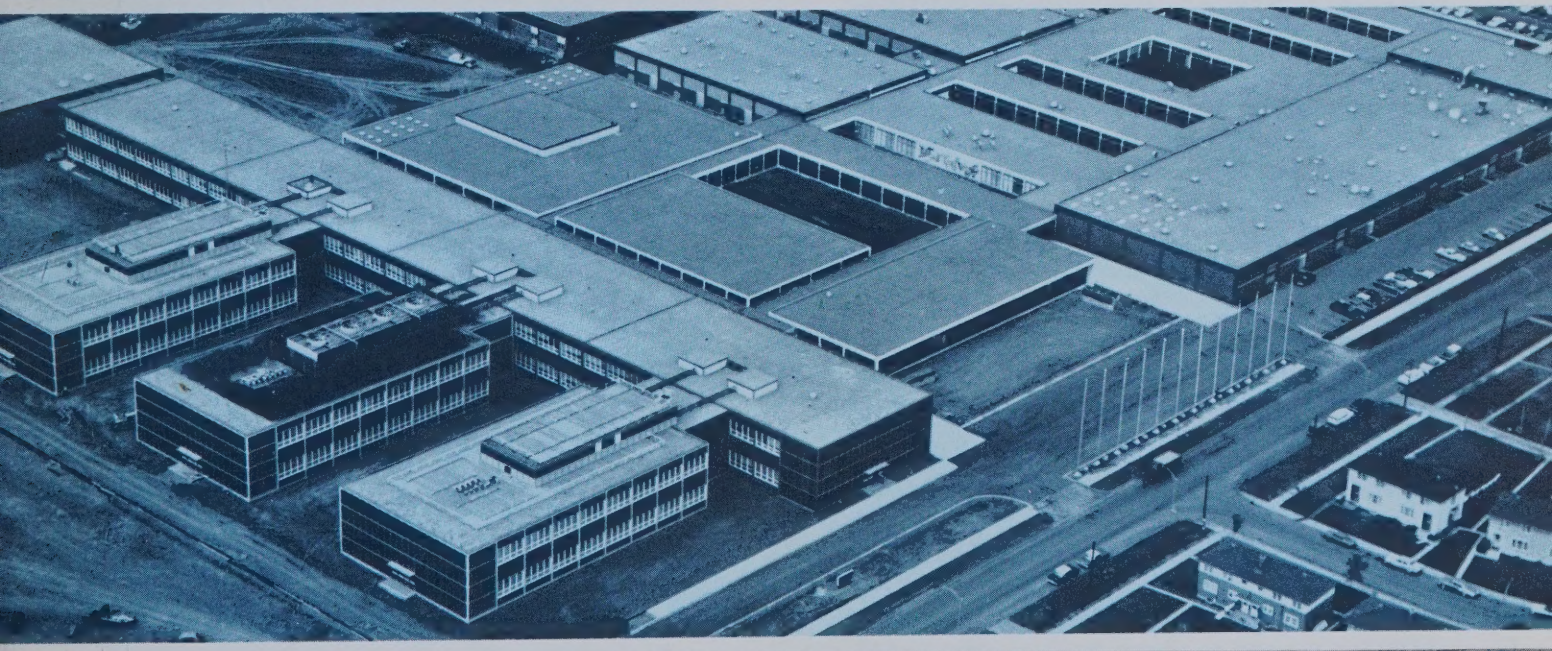
March 10, 1964

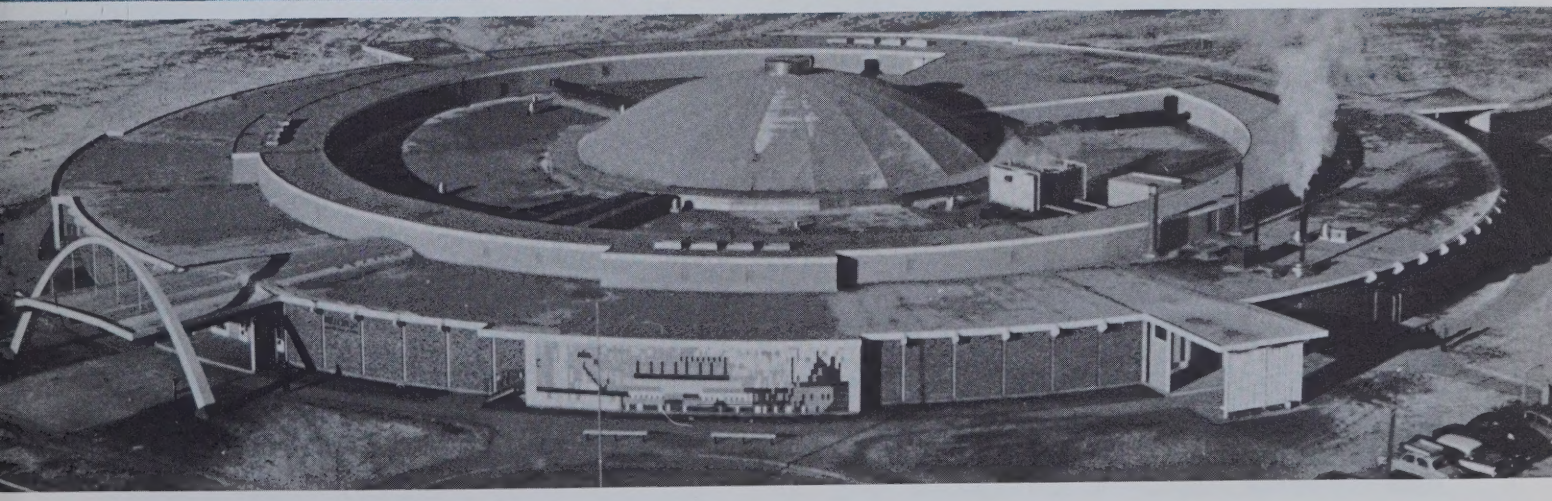
The Campus of the University of Alberta, one of Northwestern's major gas users. In background is the high level bridge and downtown section of Edmonton.

The Northern Alberta Institute of Technology, Edmonton, the largest building in Canada to be fully air conditioned with natural gas.

This unique compact school at Jasper Place, a suburb of Edmonton, is a "total energy" building which relies on natural gas for all heating, lighting, air conditioning and power purposes.







Review of operations

Natural gas operations

Despite milder than normal weather, our gas sales last year were 115 billion cubic feet, an increase of 5.7 billion cubic feet over 1962. This is more than was distributed by any other company in Canada despite the fact that Alberta's natural gas is now being transported in large volume to the metropolitan centers of Canada. Had the temperatures been normal, we estimate that the gas sales would have been 119.2 billion cubic feet. This is the fourth successive year in which average temperatures were warmer than normal in our service area.

Gross revenue from natural gas sales rose from $37,830,206 in 1962 to $39,471,085 last year, a gain of 4.3%. Our estimates show that gas revenues would have been increased by $1,450,000 in 1963 and $522,000 in 1962 if temperatures had been normal.

Although the cost of our natural gas supplies continues to increase, the average gas rate paid by all classes of customers declined last year. The average rate per MCF was 35¢, the lowest for any comparable gas distribution company in North America. The average cost of gas to our residential customers for heating, cooking and all other purposes was only $103 for the full year 1963.

Our two principal natural gas subsidiaries, Canadian Western and Northwestern, now serve over 212,700 customers. Northland Utilities, which distributes both gas and electricity in northern Alberta, has about 10,100 gas customers.

The net earnings of both Canadian Western and Northwestern declined slightly last year, mainly because of the warmer weather. Northwestern's earnings were also affected by the rate allowance of 2¢ per MCF which the company granted to virtually all of its customers during the period from October 1, 1962 to April 30, 1963.

Our companies continue their efforts to develop new uses for gas and to attract new industries to Alberta. A promising new development is the "total energy" concept in which natural gas is the sole source of energy for an entire building or plant. Several such installations have been made and many more are expected, particularly for large public buildings, shopping centers and hotels. A good market for gas is also being developed in the air conditioning of commercial buildings.

The natural gas systems were extended last year by 187 miles of transmission and field lines and 100 miles of distribution mains. The system now consists of 2,514 miles of transmission and field and 2,620 miles of distribution lines, a total of 5,134 miles of pipelines.

Construction of a new service center in Calgary was completed this year by Canadian Western at a total cost of about $800,000. This fully air conditioned building consolidates in one structure operations which were formerly carried on at four separate locations.

Gross capital expenditures on the natural gas systems amounted to $9,260,000 in 1963 and an estimated $6,890,000 will be expended this year. This includes $1,126,000 of contingent natural gas projects which may not be undertaken in 1964.

Natural gas supply

Our gas reserves were strengthened last year. Completion of the $3,600,000 transmission line from Edmonton to the Swan Hills area has tied in another 690 billion cubic feet to Northwestern's system. Two new sources of supply in the area northeast of Calgary began deliveries to Canadian Western in December. This gas is being delivered to Calgary through the same pipeline which transmits gas from our wells in the Carbon Field. During the year Northwestern participated in an exploration program about 165 miles northeast of Edmonton and was active in consolidating its position in other dry gas fields in the Edmonton area. Substantial reserves in the Worsley Field were connected to the Northland Utilities system.

At the year-end the total estimated reserves at fields in which the system companies produce, purchase or own gas aggregated over 4.2 trillion cubic feet of gas. This does not include reserves available to other companies from whom we purchase gas obtained through transmission lines owned by the Alberta Gas Trunk Line and other companies. The major gas export companies have also contracted to make available substantial additional gas supplies in priority over their export demands if a need should arise for additional deliveries to our Alberta customers.

Our companies purchased 79% of their gas requirements last year at an average cost of 12.7¢ per MCF. The balance was produced from company owned wells and leases.

No producing gas wells were drilled in 1963, although Northwestern purchased two wells and acquired part interests in four others. At the year-end our companies operated 173 wells, of which 152 were owned. An additional 55 wells were owned and nine partially owned but not yet connected to the system.

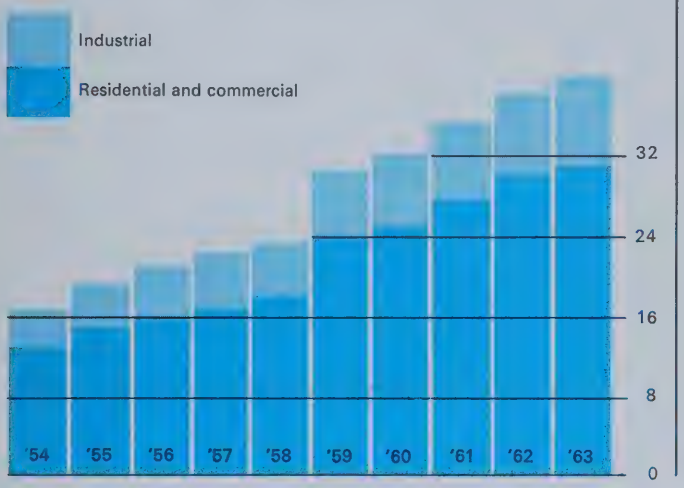
The combined maximum daily demand of the natural gas systems during the year 1963 was 657 million cubic feet. Their combined maximum daily delivery capacity at the year-end was 782 million cubic feet.

Electric operations

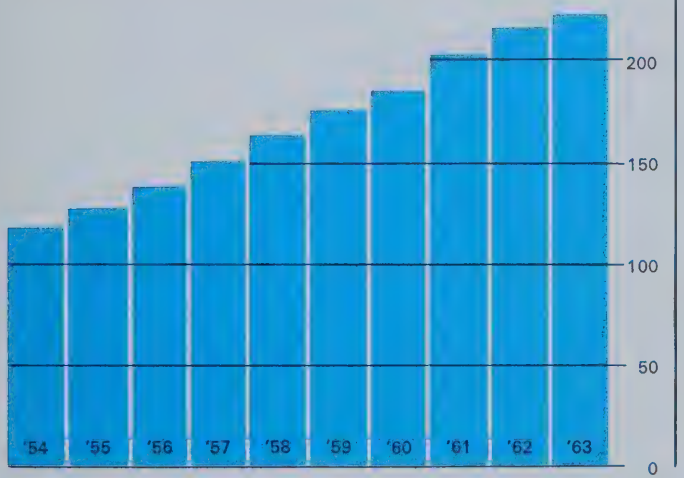
The total sales of electric current by our companies last year amounted to 371,261,227 KWH, up 38,173,592 or 11.5% from 1962. This growth was largely due to an excellent crop year in central and southern

Natural gas sales and customers

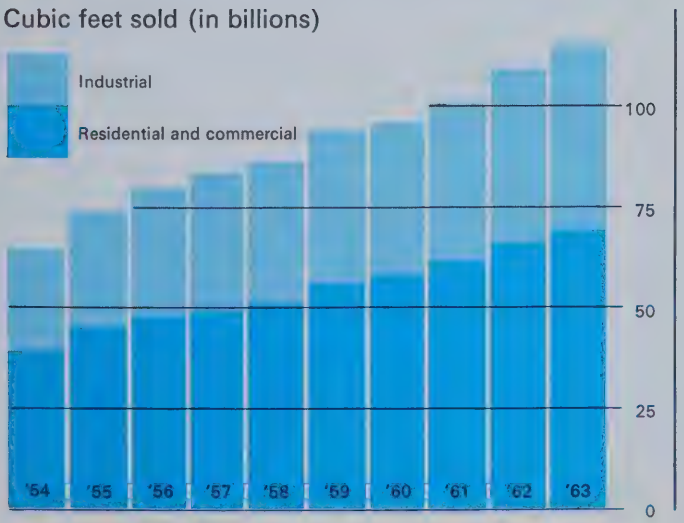
Operating revenue (in millions of dollars)



Number of customers (in thousands)

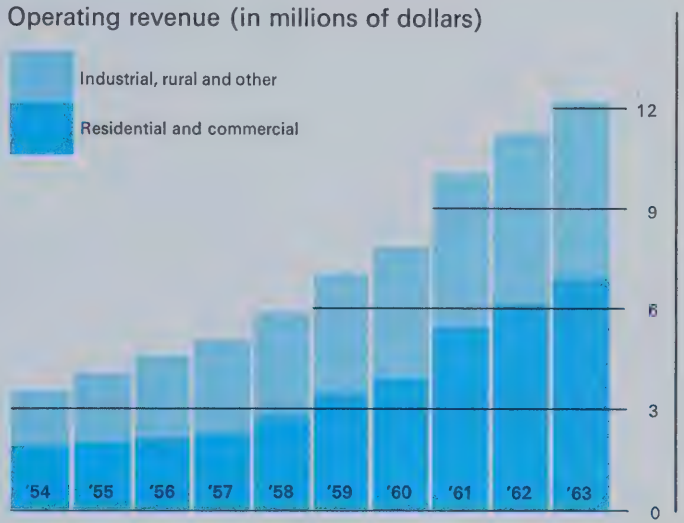


Cubic feet sold (in billions)

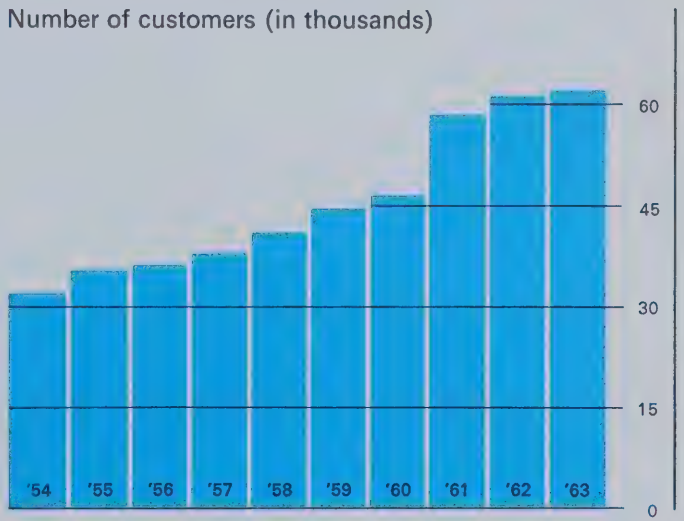


Electric sales and customers

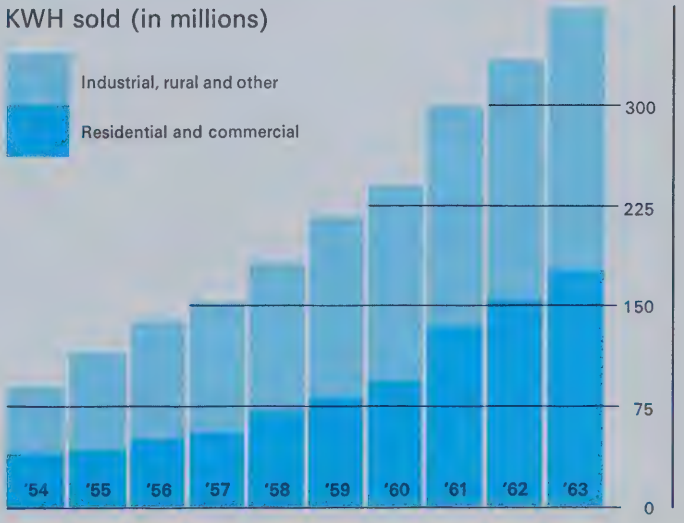
Operating revenue (in millions of dollars)



Number of customers (in thousands)



KWH sold (in millions)





"S.T. Siri" – newest and largest of the Gotaas-Larsen tankers – completed in May, 1963.

"The Siri" encounters a typhoon in the China Sea . . . no damage!

Review of operations

Alberta, together with the expansion of loads in the oilfields and communities served. Gross electric revenues reached $12,205,406, an increase of $812,015. The gain of 7.1% was very good in view of the rate reductions to some residential and farm customers early in 1963.

The electric companies now own and operate 32 generating stations and nine stations supplying microwave sites on the MacKenzie highway, with an aggregate capacity of about 136,000 KW. This will be increased by 32,000 KW with the installation of a second coal-fired generating unit to be completed in April. This will double the capacity of Canadian Utilities' Battle River plant. The combined maximum peak hour demand in 1963 was 115,000 KW.

Our companies supply electric service to rural areas in Alberta and the northern territories. Service was extended to 2,740 new customers last year including about 1,200 supplied by rural cooperative associations. A total of 62,523 customers are now served with electricity including 16,418 cooperative rural customers and 1,180 other rural farm services. This is after an adjustment to combine with the respective residential customer accounts some 1,500 water heater services which were classified as separate customers in prior years.

About 369 miles of electric transmission and distribution lines were built last year. Our electric system now consists of 4,193 miles of transmission and 1,453 miles of distribution lines, a total of 5,646 miles. The companies have also constructed and now operate 14,857 miles of transmission lines owned by the rural cooperative associations, of which about 540 miles were added last year.

Gross capital expenditures on the electric plants and property in 1963 amounted to $5,435,000 including $1,910,000 on the new unit at the Battle River plant. The requirements for 1964 are estimated at $5,920,000 which includes $1,212,000 to complete the installation of the new generating unit.

Steel scrap, slag and crushed stone operations

The operations of Brown Brothers and B & B Carriers are not consolidated, but their combined net income from operations is included separately in the consolidated statement of income under "Gross income". International owns all of their outstanding shares.

The operations of these companies in 1963 were characterized chiefly by a shift in sales mix to include a higher percentage of steel revenue. The improvement in steel revenue resulted from a full year of operation of new facilities which were installed during 1962, and also from the generally higher level of steel production. Stone and slag revenues reflected the reduced level of road building in southeastern Pennsylvania and north central New Jersey in 1963.

The following is a summary of the combined operations of the two companies for the past two years:

	1963	1962
Net sales	**$3,656,280**	**$3,281,098**
Gross profit before depreciation	1,464,847	1,153,198
Other income	55,603	49,785
Total	**1,520,450**	**1,202,983**
Selling, administrative and general expenses	363,549	333,694
Federal and state income taxes	472,500	343,804
Depreciation and amortization	268,286	237,779
Net income from operations	**416,115**	**287,706**
Net gain or (loss) on investments	29,776	(31,791)
Net income	**$ 445,891**	**$ 255,915**

Efforts to increase metal recovery sales were successful last year in both domestic and foreign markets. A newly formed 75% owned subsidiary, Corporacion Chatarraven, C.A., has entered into a ten-year contract with a government-owned steel mill in Venezuela and began operations early in 1964.

Gross capital expenditures by Brown Brothers in 1963 for new equipment and improvements amounted to $327,000. It is estimated that $1,500,000 will be required in 1964, including equipment for the new business in Venezuela.

At the year-end Brown Brothers and B & B Carriers had $1,250,000 temporarily invested in short-term paper and owned other marketable securities valued at $230,100.

Shipping operations

As of August 21, 1963, our Corporation acquired all of the outstanding capital shares of Gotaas-Larsen, Inc., a ship operating company, and a number of shipping company affiliates. The Corporation issued in exchange 574,532 of its common shares of $2.50 par value. A fair value of $23 per share in Canadian funds, or $13,214,236, was recorded as the aggregate book cost of the investments. The total par value of the shares issued, or $1,436,330, was credited to common stock account, and the balance of $11,777,906 was credited to paid-in surplus.

The accounts of the shipping companies are not included in our consolidated financial statements. Their combined net earnings for the four months ended December 31, 1963 amounted to $570,133 and net earnings of $39,998 were applicable to a minority interest owned by International during the prior period of the year. The total of such earn-

ings, or $610,131, is included under "Gross income" in the statement of consolidated income of our Corporation and its subsidiaries for 1963.

No dividends were received from the shipping companies in 1963, and it is unlikely that any dividends will be distributed this year. To the extent that any dividends may be distributed to International in the future, the then applicable U.S. tax rate (under present law 48% beginning in 1965) would have to be paid. Therefore, an arbitrary reserve of 25% (or $149,000) of the combined net applicable earnings of the shipping companies is included with income tax expense in the consolidated statement of income, as a reasonable provision for deferred taxes.

For the full year 1963 the shipping companies reported combined net income of $1,372,891, as compared with $1,378,014 earned in 1962. Combined financial statements of the Gotaas-Larsen companies on a comparative basis are shown on pages 22 and 23 of this report.

Our newest and largest ship, the 53,200 deadweight ton (DWT) oil tanker "Siri" was completed and began operating last May. We own and operate two oil tankers of about 40,000 DWT each and one of 29,000 tons and a 15,500 ton bulk carrier engaged in lightening cargoes from other vessels. We also operate a 29,000 ton tanker on a bareboat charter. One of the subsidiaries owns 40% of the outstanding capital stock of A/S Skaugaas (Norway), which owns four bulk carriers of about 24,700 tons each. These carriers are chartered to another subsidiary, which holds contracts to transport coal and ore, and which also charters two bulk carriers of about 23,000 tons each owned by outside interests. The subsidiaries also own a stevedoring firm with five general cargo lighters and two ship agency and brokerage companies in South America, which were acquired in January 1963.

We have on order three new oil tankers from a shipbuilding company in Japan and two refrigerator ships (reefers) which are being built in Norway. Two of the tankers will be 55,000 DWT each and the other 94,700. The reefers will each be 5,800 tonners with 245,000 cubic foot capacity. Deliveries are expected between December 1964 and October 1965.

The five new vessels are being constructed at an estimated aggregate cost of $24,900,000. About $18,600,000 of this amount will be provided by first mortgage financing, leaving a balance of $6,300,000 required in equity funds. Of this amount $971,000 was paid in 1963, and the balance is being paid periodically as required in 1964 and 1965.

New financing

The only permanent financing last year was the sale by Northwestern in March of $12,000,000 first mortgage bonds, which was referred to in last year's report. This should provide for that company's capital requirements through 1965.

A substantial portion of the cash required for 1964 capital expenditures of the other subsidiaries will be provided from funds temporarily held in short-term investments, depreciation and retained earnings. No definitive arrangements have been made as yet for financing the balance and some permanent financing may be undertaken by the subsidiaries later this year. The system companies as a whole are in a strong financial position. The very substantial investments of the Parent Company and International Utilities Inc. in readily marketable securities are, of course, available for financing capital requirements to the extent that this may be deemed advisable.

United States and Canadian withholding taxes on dividends

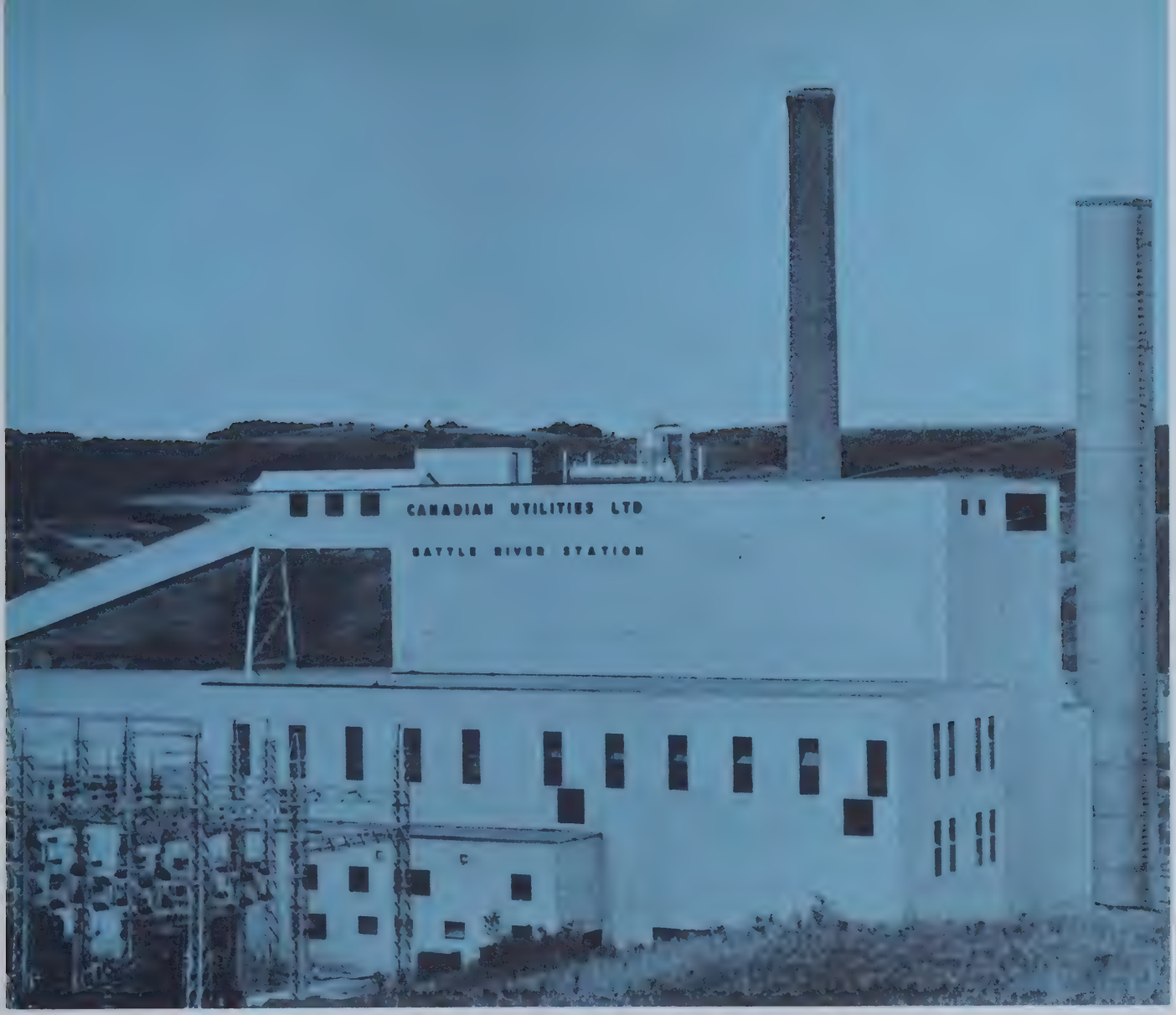
For the three years ended December 31, 1963 more than 80% of the gross income of the Parent Company was derived from sources outside the United States. Therefore, dividends declared and paid by International in 1964, as well as in the two preceding years, will not constitute income from sources within the U.S. under the applicable provisions of the Internal Revenue Code and no U.S. withholding tax is required from such dividends.

As a corporation resident in Canada, however, we are still required to deduct the Canadian withholding tax from dividend payments to U.S. and other non-Canadian shareholders. Beginning with the August 31, 1963 payment, the withholding rate on our dividends was reduced from 15% to 10%. In most cases we believe that the Canadian tax withheld may be taken as a credit against the U.S. income tax payable by our U.S. shareholders on their income from our Corporation and other sources outside of the U.S.

Marketable investments

A list of marketable securities and other investments owned by the system companies appears on page 16 hereof. This includes securities with market quotations aggregating $34,225,000, which exceeds their book cost by $10,560,000. About 48% of the total value was represented by railroad company stocks and bonds valued at $16,402,000 or $4,853,000 over cost.

We have large investments in the Pennsylvania and New York Central railroad companies. Pennsylvania reported consolidated net earnings of $1.78 per share, up $.85 from 1962 and the highest in six years. New York Central's consolidated net earnings climbed from three cents per share to $2.11. This is reflected in the improved market quotations for the shares of both companies, and we do not believe that current quotations as yet reflect the intrinsic value of their shares and the tremendous benefits which would accrue



The extension to the Battle River plant and installation of a second 32-megawatt generating unit to be commissioned this year is proceeding on schedule.



Photograph taken during winter construction of the Swan Hills line, which brings gas 120 miles south to the City of Edmonton.

from their proposed merger. We remain confident that the merger will ultimately be consummated. Under the terms of the proposed merger one share of the new company would be issued for each presently outstanding share of Pennsylvania and 1.3 shares would be issued for each share of New York Central.

High voltage transmission lines

During the year the Corporation continued to pursue a number of projects involving the use of new techniques for the long distance transmission of large blocks of electric power in the United States and Canada. Our concept is that electric energy can be moved by a transportation agency distinct from the agency generating or distributing the power just as gas is pipelined by agencies independent of production or distribution. The Corporation would be a contract or a common carrier of electric energy depending on the particular project.

Most of the technical and engineering problems have been overcome, but many other problems remain to be solved before any of these projects can be brought to a successful conclusion.

Shareholders

As of December 31, 1963, our Company was owned by 9,492 holders of record of both preferred and common shares. Of this number 63.9% resided in Canada (including 10.5% in the Province of Alberta) and 34.3% in the U.S. Of the total number of shares outstanding 52% was owned in Canada and 41% in the U.S. Most of the remaining shares were owned in the United Kingdom.

The shares are widely distributed with owners in every Canadian province, all but three of the 50 states, the District of Columbia and eleven other countries. The average holding was 297 shares of preferred and 738 shares of common.

At the year-end there were 12,197 shareholders of record of the preferred and common shares of our Alberta operating companies. Of these 98.6% were residents of Canada and 68.1% resided in the Province of Alberta.

Employees

There were 2,277 persons employed by the system companies at the end of the year. In addition, an average of about 550 temporary employees, principally construction workers, were employed during the year. Of the permanent employees, 1,602 were residents of Canada and 179 of the United States. The remaining 496 were employed by the shipping companies in other countries, including 424 seamen on our foreign flag ships.

International Utilities Corporation and subsidiaries

Consolidated balance sheet

as of December 31, 1963
with comparative figures as of December 31, 1962

ASSETS	1963	1962
	(Stated in Canadian currency – note 1)	
Property, plant and equipment, substantially at cost, including approximately $1,103,000 classified as intangibles	$199,551,100	$186,067,471
Less accumulated depreciation and amortization	47,797,087	43,316,680
Net property, plant and equipment	**151,754,013**	**142,750,791**
Investments:		
Non-consolidated subsidiaries (note 1):		
Gotaas-Larsen companies:		
Common stock	13,858,055	–
Advances	1,071,000	–
U.S. industrial companies – common stock (net assets $2,725,020)	2,943,155	2,496,174
Marketable securities at cost (quoted market $33,995,360 – 1963) (see page 16)	23,474,488	21,935,647
Other investments at cost, less reserve (see page 16)	1,493,670	1,818,372
Total investments	**42,840,368**	**26,250,193**
Current assets:		
Cash	2,207,279	1,852,602
Purchase fund deposit, $2 convertible preferred stock (note 6)	506,568	510,000
Short-term investments (approximate market value)	6,152,945	4,552,892
Consumers' service and other accounts receivable	7,040,823	8,168,094
Inventories of merchandise, materials and supplies, including construction materials – stated at average cost or less	2,665,073	2,502,340
Trust funds for rural cooperative lines, per contra	2,260,834	1,916,703
Prepaid expenses	180,393	241,698
Total current assets	**21,013,915**	**19,744,329**
Unamortized deficiencies in allowed revenue for 1959	**–**	**221,000**
Deferred charges:		
Unamortized debt discount, premium and expense	1,435,288	1,198,026
Other deferred charges	495,994	367,080
Total deferred charges	**1,931,282**	**1,565,106**
Total assets	**$217,539,578**	**$190,531,419**

LIABILITIES		
Funded debt (excluding maturities due within one year) – (see page 17 and note 3)	**$ 65,483,050**	**$ 55,940,550**
Current liabilities:		
Loans payable to banks	800,000	2,200,000
Accounts payable – trade	4,370,355	5,863,360
Provision for income taxes	3,933,034	4,482,026
Other accrued taxes	1,292,033	1,300,964
Accrued interest and dividends on preferred shares of subsidiaries	925,406	710,233
Consumers' and other refundable deposits	2,143,174	2,042,953
Deposits for rural cooperative construction	742,085	693,015
Sinking fund and funded debt instalments due within one year	1,832,950	1,246,450
Amounts held in trust for rural cooperative lines, per contra	2,260,834	1,916,703
Other current and accrued liabilities	1,050,931	737,962
Total current liabilities	**19,350,802**	**21,193,666**
Reserves:		
Accumulated income tax reductions (note 4)	1,740,417	510,956
Deferred income taxes (note 5)	149,000	–
Injuries and damages and other contingencies	775,434	744,356
Contributions for extensions	2,004,401	1,786,742
Total reserves	**4,669,252**	**3,042,054**
Preferred stocks of and minority interest in subsidiaries (see page 17)	31,248,762	30,831,402
Shareholders' equity (see page 15)	96,787,712	79,523,747
Total liabilities	**$217,539,578**	**$190,531,419**

See pages 20 and 21 for notes to financial statements which are an integral part of this consolidated balance sheet.

International Utilities Corporation and subsidiaries

Statement of consolidated income

for the year ended December 31, 1963
with comparative figures for 1962

	1963	1962
Gross income:	(Stated in Canadian currency—note 1)	
Natural gas	$39,471,085	$37,830,206
Electricity	12,205,406	11,393,391
Rentals	654,124	657,920
Net earnings (note 1):		
U.S. industrial companies	416,115	287,706
Gotaas-Larsen companies (including interest of $9,775)	619,906	–
Interest and dividends	1,520,603	1,113,825
Miscellaneous (net)	19,069	103,654
	54,906,308	**51,386,702**
Operating expenses:		
Natural gas purchased	11,342,384	10,738,028
Other operations	13,527,374	12,894,567
Maintenance	1,975,471	1,941,050
Taxes–other than income taxes	3,144,652	3,049,694
Provision for income taxes (notes 4 and 5)	7,286,674	6,783,508
Depreciation and amortization (exclusive of $370,123 in 1963 and $360,874 in 1962 charged to operations and maintenance)	4,737,870	4,374,870
	42,014,425	**39,781,717**
Operating income	**12,891,883**	**11,604,985**
Deductions:		
Interest on funded debt	3,123,664	2,686,920
Other interest	140,095	127,469
Less interest during construction charged to property, plant and equipment	(82,698)	(19,544)
Amortization of debt discount, premium and expense, etc., less profit on bonds purchased for cancellation	76,634	(19,094)
Dividends paid or accrued on preferred shares of subsidiaries	1,126,556	1,126,766
Proportion of net income applicable to minority interests in common stocks	705,153	669,662
	5,089,404	**4,572,179**
Net income, excluding gain on disposition of investments	**7,802,479**	**7,032,806**
Net gain on disposition of investments (after deducting estimated U.S. capital gains tax of $464,200 in 1963 and $417,196 in 1962 and other applicable expenses)	1,326,788	1,530,163
Net income, including gain on disposition of investments	**$ 9,129,267**	**$ 8,562,969**

See pages 20 and 21 for notes to financial statements which are an integral part of this statement of consolidated income.

Shareholders' equity – consolidated

as of December 31, 1963
with comparative figures as of
December 31, 1962

	1963	1962
Preferred stock, par value $25 per share:	(Stated in Canadian currency – note 1)	
Authorized for issuance, 648,312 shares $2 convertible preferred stock and 100,000 shares unclassified as to series		
Outstanding, 581,496 shares $2 convertible preferred stock as of December 31, 1963 (582,934 shares in 1962) (note 6)	$14,537,400	$14,573,350
Common stock, par value $2.50 per share (note 7):		
Authorized, 10,000,000 shares; reserved for conversion of preferred stock, 1,162,992 shares, and exercise of stock options, 85,185 shares, in 1963 (notes 6 and 8)		
Outstanding, 5,572,563 shares in 1963 and 4,975,918 shares in 1962	13,931,408	12,439,799
Surplus, per accompanying statements (note 6):		
Paid-in surplus (see statement below)	25,196,656	13,149,610
Earned surplus (see statement below and note 3)	43,122,248	39,360,988
Total shareholders' equity	**$96,787,712**	**$79,523,747**

Statement of consolidated paid-in surplus

for the year ended December 31, 1963
with comparative figures for 1962

Balance at beginning of year	**$13,149,610**	**$12,933,613**
Add:		
Paid-in surplus of Northland Utilities applicable to additional shares acquired for cash	1,753	1,561
Excess of net proceeds (cash or debentures converted) on issue of common shares by consolidated subsidiaries over net assets or par value applicable thereto	45,600	31,392
Premium on 19,249 common shares issued upon exercise of employees' stock options (17,914 in 1962)	192,994	179,034
Excess of par value of 1,438 shares $2 convertible preferred over par value of 2,876 common shares issued on conversion (400 in 1962)	28,760	4,000
Excess of the assigned value (approximate market) over par value of 574,532 shares of common stock issued in the exchange for capital shares of the Gotaas-Larsen companies (note 7)	11,777,906	–
Adjustment in respect of common share bearer scrip	33	10
Balance at end of year	**$25,196,656**	**$13,149,610**

Statement of consolidated earned surplus

for the year ended December 31, 1963
with comparative figures for 1962

Balance at beginning of year	**$39,360,988**	**$35,905,026**
Add:		
Net income for year per statement of consolidated income	9,129,267	8,562,969
	48,490,255	**44,467,995**
Deduct:		
Dividends:		
$2 convertible preferred ($2 U.S. per share in 1963 and 1962)	1,257,336	1,251,271
Common ($.80 Canadian per share in 1963 and $.77½ per share in 1962)	4,104,289	3,850,615
	5,361,625	**5,101,886**
Excess of cost over par value of Northland securities acquired for cash	6,382	5,121
	5,368,007	**5,107,007**
Balance at end of year	**$43,122,248**	**$39,360,988**

See pages 20 and 21 for notes to financial statements which are an integral part of these statements.

International Utilities Corporation and subsidiaries

Investments

as of December 31, 1963

MARKETABLE SECURITIES	Shares or principal amount	Market value
Owned by International Utilities Corporation:	(Stated in Canadian currency – note 1)	
Canadian investments:		
Canadian Chemical Company, Limited–7% debentures due 1980	$ 192,000	$ 202,560
Power Corporation of Canada, Limited:		
Common stock	400,000	4,200,000
6% participating preferred stock	23,670	266,288
White Pass and Yukon Corporation Limited, The–common stock	100,000	837,500
Other common stocks:		
Bitumen and Oil Refineries (Australia) Limited	6,600	22,308
Broken Hill Proprietary Co., Ltd., The	12,000	79,080
Custom Credit Corporation Limited	70,000	104,300
H. C. Sleigh Limited	70,000	109,900
Pacific Gas Transmission Company	100,000	1,675,000
		7,496,936
Owned by subsidiaries:		
Common and preferred stocks:		
Alberta Gas Trunk Line Company, Limited, The–class A	9,360	267,930
Atlantic Coast Line Company	9,000	706,500
Atlantic Coast Line Railroad Company	3,000	200,250
C. Brewer and Company Limited	175,000	6,037,500
Cleveland-Cliffs Iron Company, The	28,300	1,400,850
Eagle-Picher Company, The	10,000	226,250
Howe Sound Company	100,000	1,000,000
International Packers Limited	30,500	476,563
Martin Marietta Corporation	30,000	596,250
McCord Corporation	50,000	1,093,750
New York Central Railroad Company, The	242,600	6,034,675
Pennsylvania Railroad Company, The	214,000	5,483,750
Power Corporation of Canada, Limited–6% participating preferred	2,025	22,781
Saratoga Processing Company Limited–class A	20,000	42,000
Seaboard Air Line Railroad Company	29,200	1,292,100
Bonds:		
Baltimore and Ohio Railroad Company, The–4½% convertible debentures due 2010	$ 200,000	148,000
Missouri Pacific Railroad Company–5% income debentures due 2045	$2,000,000	1,525,000
New York Central Railroad Company, The–4½% refunding and improvement mortgage due 2013	$ 250,000	174,375
Total marketable securities (includes $230,100 owned by a non-consolidated U.S. industrial company)		**$34,225,460**

OTHER INVESTMENTS	Shares or principal amount	Carrying value
Owned by International Utilities Corporation:		
Central Gas Utilities, Ltd.–5% and 5½% demand notes	$ 190,000	$ 190,000
Northwest Explorers Ltd.:		
Common stock	36,000	3,600
Non-interest-bearing redeemable debentures due 1972	$ 32,400	32,400
Polaris Pipe Lines–common stock	80,000	80,000
Other	–	12,500
		318,500
Owned by subsidiaries:		
Peace River Power Development Company–common stock	442,000	35,000
Rothesay Paper Corporation:		
6% participating preferred stock	50,000	500,000
6¾% general mortgage bonds due 1985 (with common share warrants)	$ 500,000	480,000
Secured mortgage loans and agreements for sale of real estate to employees	–	139,935
Other	–	20,235
Total other investments (at cost, less reserve)		**$ 1,493,670**

Funded debt outstanding

as of December 31, 1963 (note 3)

	Total amount	Due within one year
Canadian Western Natural Gas Company Limited:	(Stated in Canadian currency – note 1)	
First mortgage sinking fund bonds:		
Series A–3½%–due April 1, 1971	$ 4,175,000	$ –
Series B–5¾%–due February 1, 1982	6,115,000	185,000
Series C–5⅜%–due April 1, 1983	4,022,000	87,000
Northwestern Utilities, Limited:		
First mortgage sinking fund bonds:		
Series B–3½%–due December 15, 1971	2,087,500	204,750
Series C–3½%–due December 15, 1971	969,000	91,000
Series D–3⅝%–due December 15, 1971	2,622,500	227,500
Series E–3⅝%–due December 15, 1975	3,200,000	165,000
Series F–4¾%–due January 15, 1979	3,303,000	153,000
Series G–5⅜%–due April 15, 1983	6,096,500	–
Series H–5¾%–due March 1, 1988	12,000,000	315,000
Notes payable–3⅞%–due September 1, 1969 (payable in annual instalments increasing from $174,000 in 1964 to $183,000 in 1968)	1,065,000	174,000
Canadian Utilities, Limited:		
First mortgage sinking fund bonds:		
Series A–3⅛%–due June 1, 1972	1,805,000	42,500
Series B–3⅖%–due December 1, 1974	565,500	12,750
Series C–3⅖%–due December 1, 1975	2,388,000	51,000
Series D–4¼%–due November 1, 1979	3,840,000	40,000
Series E–4⅛%–due April 1, 1981	3,733,500	–
Series F–5½%–due December 1, 1986	5,000,000	–
Convertible debentures–5¾%–Series A–due December 1, 1977 (43,400 common shares reserved for issuance on conversion)	1,085,000	–
Northland Utilities Limited:		
First mortgage sinking fund bonds:		
Series A–5%–due August 1, 1965	647,500	27,200
Series B–5%–due February 1, 1973	830,500	7,250
Series C–5¾%–due May 1, 1977	853,500	25,000
Series D–5¾%–due December 1, 1978	912,000	25,000
Total funded debt of subsidiaries	**$67,316,000**	**$1,832,950**

Note: These amounts of funded debt outstanding are stated after deducting $475,000 Series A and $28,000 Series C Bonds of Canadian Western, $203,500 Series G Bonds of Northwestern, $132,500 Series E Bonds of Canadian Utilities and $20,500 Series B Bonds of Northland which have been repurchased and are held for future sinking fund payments.

Preferred stocks of and minority interest in subsidiaries

as of December 31, 1963

Preferred stocks at par value:	(Stated in Canadian currency – note 1)
Canadian Western Natural Gas Company Limited:	
275,410 shares cumulative redeemable preference 4% Series, $20 each	$ 5,508,200
200,000 shares cumulative redeemable preference 5½% Series, $20 each	4,000,000
Northwestern Utilities, Limited:	
105,000 shares 4% cumulative preference, $100 each	10,500,000
Canadian Utilities, Limited:	
40,000 shares 5% cumulative redeemable preferred, $100 each	4,000,000
15,000 shares 4¼% cumulative redeemable preferred, $100 each	1,500,000
Northland Utilities Limited (after deducting proportion held by Parent Company):	
60 shares 5% cumulative redeemable preferred, $50 each	3,000
417 shares 5½% cumulative redeemable preferred, $100 each	41,700
	25,552,900
Minority interest in common stocks and surplus of subsidiaries:	
Canadian Western Natural Gas Company Limited:	
Equity applicable to 219,620 shares common stock held by public out of 1,780,000 shares outstanding	1,906,121
Canadian Utilities, Limited:	
Equity applicable to 214,928 shares common stock held by public out of 848,238 shares outstanding	3,745,787
Northland Utilities Limited:	
Equity applicable to 3,409 shares common stock held by public out of 358,262 shares outstanding	43,954
Total preferred stocks of and minority interest in subsidiaries	**$31,248,762**

See pages 20 and 21 for notes to financial statements which are an integral part of these statements.

International Utilities Corporation

(Parent Company only)

Balance sheet

as of December 31, 1963
with comparative figures as of
December 31, 1962

ASSETS	1963	1962
	(Stated in Canadian currency – note 1)	
Investments:		
Consolidated subsidiaries (note 2):		
Canadian companies:		
Common and preferred stocks	$14,562,974	$14,547,992
Notes and advances	2,550,000	1,770,000
U.S. companies–common stocks	16,465,408	16,454,630
Non-consolidated subsidiaries–common stocks, at cost		
Gotaas-Larsen companies	13,247,924	–
U.S. industrial companies	2,153,413	2,152,323
	48,979,719	**34,924,945**
Marketable securities at cost (quoted market $7,496,936–1963) (see page 16)	4,987,915	5,999,837
Other investments at cost, less reserve (see page 16)	318,500	620,939
Total investments	**54,286,134**	**41,545,721**
Current assets:		
Cash	501,466	745,798
Purchase fund deposit, $2 convertible preferred stock (note 6)	506,568	510,000
Short-term investments (approximate market value)	300,000	–
Due from subsidiaries	1,595,035	–
Other receivables	41,495	1,794,196
Prepaid expenses, materials and supplies	11,554	18,034
Total current assets	**2,956,118**	**3,068,028**
Plant and equipment, at cost less depreciation:		
Asphalt division	97,572	86,489
Furniture and fixtures	10,390	10,253
	107,962	**96,742**
Less accumulated depreciation	35,732	27,265
Net plant and equipment	**72,230**	**69,477**
Deferred charges	**222,089**	**87,340**
Total assets	**$57,536,571**	**$44,770,566**

LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$ 204,058	$ 200,904
Provision for income taxes	751,035	665,578
Total current liabilities	**955,093**	**866,482**
Shareholders' equity:		
Preferred stock, par value $25 per share:		
Authorized for issuance, 648,312 shares $2 convertible preferred stock and 100,000 shares unclassified as to series		
Outstanding, 581,496 shares $2 convertible preferred stock as of December 31, 1963 (note 6)	14,537,400	14,573,350
Common stock, par value $2.50 per share (note 7):		
Authorized, 10,000,000 shares; reserved for conversion of preferred stock, 1,162,992 shares, and exercise of stock options, 85,185 shares (notes 6 and 8)		
Outstanding, 5,572,563 shares in 1963 and 4,975,918 in 1962	13,931,408	12,439,799
Surplus, per accompanying statements (note 6):		
Paid-in surplus (see page 19)	24,707,992	12,708,299
Earned surplus (see page 19)	3,404,678	4,182,636
Total shareholders' equity	**56,581,478**	**43,904,084**
Total liabilities	**$57,536,571**	**$44,770,566**

See pages 20 and 21 for notes to financial statements which are an integral part of this balance sheet.

Statements of income and surplus

for the year ended December 31, 1963
with comparative figures for 1962

INCOME	1963	1962
Income:	(Stated in Canadian currency – note 1)	
Dividends and interest from Canadian subsidiaries	$4,284,744	$4,488,718
Dividends and interest from United States subsidiaries	–	641,400
Exchange premium on remittances from United States subsidiaries	–	49,244
Other dividends and interest	302,482	206,702
Income, net–asphalt division	19,620	40,853
Rental income–Milner Building	727,388	715,594
Total income	**5,334,234**	**6,142,511**
Deduct:		
General and administrative expenses	157,148	156,265
Transfer agents', registrars' and other corporate expense	88,773	64,798
Expenses–Milner Building	695,904	710,278
Provision for income taxes	307,000	308,000
Total deductions	**1,248,825**	**1,239,341**
Net income, excluding gain on disposition of investments	**4,085,409**	**4,903,170**
Net gain on disposition of investments (after deducting provision for estimated U.S. capital gains tax of $201,800 in 1963 and $408,300 in 1962 and other applicable expenses)	498,258	1,432,922
Net income, including gain on disposition of investments	**$4,583,667**	**$6,336,092**

PAID-IN SURPLUS		
Balance at beginning of year	**$12,708,299**	**$12,525,255**
Add:		
Premium on 19,249 common shares issued upon exercise of employees' stock options (17,914 in 1962)	192,994	179,034
Excess of par value of 1,438 shares $2 convertible preferred over par value of 2,876 common shares issued on conversion (400 in 1962)	28,760	4,000
Excess of the assigned value (approximate market) over par value of 574,532 shares of common stock issued in the exchange for capital shares of the Gotaas-Larsen companies (note 7)	11,777,906	–
Adjustment in respect of common share bearer scrip	33	10
Balance at end of year	**$24,707,992**	**$12,708,299**

EARNED SURPLUS		
Balance at beginning of year	**$4,182,636**	**$2,948,430**
Add:		
Net income for year per statement of income	4,583,667	6,336,092
	8,766,303	**9,284,522**
Deduct dividends:		
$2 convertible preferred ($2 U.S. per share in 1963 and 1962)	1,257,336	1,251,271
Common ($.80 Canadian per share in 1963 and $.77½ per share in 1962)	4,104,289	3,850,615
	5,361,625	**5,101,886**
Balance at end of year	**$3,404,678**	**$4,182,636**

See pages 20 and 21 for notes to financial statements which are an integral part of these statements of income and surplus.

International Utilities Corporation and subsidiaries

Notes to financial statements for the year 1963

Note 1 The consolidated financial statements are stated in Canadian currency and include the accounts of International Utilities Corporation (the Parent Company) and its Canadian subsidiaries, which operate in Canada and maintain their accounts in Canadian currency, and two U.S. subsidiaries which maintain their accounts in U.S. currency and are included herein on a dollar-for-dollar basis in Canadian currency.

The accounts of the recently acquired Gotaas-Larsen companies, for which combined financial statements are shown separately (see pages 22 and 23), and the U.S. industrial subsidiaries, which are either maintained in or converted into U.S. currency, have not been consolidated except that net earnings, since acquisition, have been included in consolidated gross income in Canadian currency on a dollar-for-dollar basis and the undistributed portion thereof has been added to the cost of the respective investments and is included in the consolidated balance sheet under "Investments, Non-consolidated subsidiaries".

Net assets of subsidiaries whose accounts are maintained in or converted into U.S. currency aggregated $36,441,135 and $22,135,927 as of December 31, 1963 and December 31, 1962, respectively, and their combined net income included in the consolidated financial statements for the years ended December 31, 1963 and December 31, 1962 amounted to $1,441,369 and $673,695, respectively, excluding gain on disposition of investments and to $2,154,785 and $669,629, respectively, including such gain.

Note 2 The amounts at which investments of International Utilities Corporation in consolidated subsidiaries, other than Northland Utilities Limited, are carried represent the underlying net assets of the subsidiaries as shown by their accounts as of December 31, 1942, excluding certain intangibles and deferred exploration expenditures, plus subsequent additions at cost. The investment in Northland Utilities Limited is carried at the par value of the $2 Convertible Preferred shares issued in 1961 in exchange for shares of Northland plus the cost of shares acquired other than by exchange. The exchange of $2 Convertible Preferred shares for shares of Northland is regarded for accounting purposes as a "pooling of interests". The net amount at which the investments in consolidated subsidiaries are carried on the books of International Utilities Corporation is $39,232,895 less than the equities applicable to such investments based upon the balance sheets of the subsidiaries after elimination of certain intangibles amounting to $8,000,000. On consolidation $38,466,697 has been credited to consolidated earned surplus, a net amount of $488,664 has been credited to consolidated paid-in surplus and $277,534 has been credited to accumulated depreciation and amortization.

Note 3 The bond indentures executed by certain subsidiaries contain restrictions on the payment of dividends and the purchase of capital stock. Of the consolidated earned surplus of the Corporation at December 31, 1963, approximately $15,500,000 was free of such restrictions.

Note 4 Certain subsidiaries are claiming depreciation for Canadian income tax purposes in excess of the amounts recorded in their accounts. As a result, the provision for income taxes has been reduced by $446,000 in 1963 and $357,000 in 1962 and an aggregate of $6,896,000 to December 31, 1963. No provision is made in the accounts for accumulated income tax reductions in respect of depreciation, except for an amount of $529,115, provided by one of the subsidiaries, of which $134,559 relates to 1963 and $115,500 to 1962.

During 1962 and 1963, two subsidiaries acquired certain natural gas rights which were written off for Canadian income tax purposes in the year of acquisition. As a result, income taxes otherwise payable have been reduced by $1,094,902 in 1963 and $116,400 in 1962. These amounts, which have been provided in the accounts, will be used to reduce income tax expense in those future years in which the cost of the natural gas rights acquired will be charged against income. Accumulated income tax reductions shown on the consolidated balance sheet at December 31, 1963 of $1,740,417 consist of the $529,115 in respect of depreciation and the $1,211,302 in respect of natural gas rights described above.

Note 5 A provision for income taxes of $149,000, representing 25% of the net non-U.S. earnings of the Gotaas-Larsen companies included in consolidated gross income, has been set up in the accounts as a reasonable provision for U.S. income taxes which may become payable in the future when and if dividends are distributed to the Parent Company.

Note 6 Each of the outstanding $2 Convertible Preferred shares is convertible into two common shares on or before December 1, 1964, into 1.8 shares on or before December 1, 1966, and thereafter on a declining basis until December 1, 1972, when each share of preferred stock will be convertible into one share of common stock. The preferred stock is cumulative as to dividends and has equal voting rights with the common.

Redemption price of the preferred stock after November 30, 1964 is $42 (U.S.) per share to December 1, 1966 and thereafter on a declining basis to $40 (U.S.) after December 1,1972, plus accrued and unpaid dividends. It is entitled, in voluntary liquidation, to receive an amount equal to the then current redemption price, and upon involuntary liquidation, to $40 (U.S.) per share, plus accrued and unpaid dividends in either case. The aggregate amount payable upon involuntary liquidation is $23,259,840 (U.S.) for shares outstanding as of December 31, 1963, which exceeds the par value by $8,722,440 (U.S.) and counsel for the Corporation has advised that there is an enforceable restriction upon surplus by reason of such excess.

On December 15 of each year the Corporation will deposit cash equal to the aggregate par value of 3.2% of the greatest number of shares of preferred stock at any one time theretofore outstanding as a Purchase Fund and will use its best efforts to purchase preferred stock at a cost not exceeding the then applicable redemption price (or $42 (U.S.) per share prior to December 1, 1964). Any part of the Purchase Fund not expended at the end of a 90-day period reverts to the Corporation. During 1963 a cash deposit in the amount of $506,568 was made by the company in respect of the foregoing requirement.

Note 7 The charter of the Corporation was amended effective May 15, 1963 thereby increasing the number of authorized common shares from 4,000,000 to 10,000,000, decreasing the par value of the common shares from $5.00 to $2.50 per share and effecting a two-for-one stock split of the common shares then outstanding.

In August 1963, International Utilities Corporation acquired the outstanding capital shares of Gotaas-Larsen, Inc., a ship operating company, and its various shipping affiliates (the Gotaas-Larsen companies) in exchange for 574,532 authorized but unissued common shares of International Utilities Corporation. The investment in the Gotaas-Larsen companies was recorded in the accounts at $13,214,236 plus applicable expenses, representing $23.00 per share, the value designated by the Board of Directors as the fair value of the 574,532 shares of International Utilities Corporation issued in the exchange. Paid-in surplus was credited with $11,777,906 representing the difference between the par value of $1,436,330 ($2.50 per share) and the fair value of $13,214,236 ($23.00 per share) of the 574,532 shares issued in the exchange.

Note 8 Options are outstanding to 212 officers and employees of the Corporation and its subsidiaries for the purchase of 52,375 shares of common stock under Employees Stock Option Plan B adopted March 11, 1959 covering an aggregate of 150,000 shares. Under the plan, options may be granted at a price not less than 85% of the fair market value of the stock at date of grant, but in no event less than $12.50 (U.S.) per share, and are exercisable in variable amounts over a period of seven years from date of grant. Of the 52,375 options outstanding at the end of the year, 43,796 were granted at $12.50 per share, 679 at $13.875 per share, 900 at $18.00 per share, 2,000 at $17.50 per share and 5,000 at $19.00 per share. On January 1, 1963, there were 66,774 shares issuable pursuant to options. During the year, options for the purchase of 19,249 shares were exercised, options for 150 shares were cancelled and an option for 5,000 shares was granted.

At the beginning of the year, there were 37,660 shares available for the granting of additional options. With the granting of an option covering 5,000 shares and the cancellation of options covering 150 shares, this became 32,810 shares at the end of the year.

Note 9 The "Milner Building" in Edmonton was sold to Sun Life Assurance Company of Canada in February 1961 and simultaneously leased back to International Utilities Corporation for 30 years at a fixed annual net rental of $446,682 with provision for three renewal terms of 10 years each at fixed annual net rentals of $174,800.

Note 10 International Utilities Corporation has guaranteed payment of principal and interest of a 5¼% bank loan aggregating $2,000,000 (U.S.) to a wholly owned non-consolidated subsidiary company. The loan is repayable in nine annual instalments beginning May 10, 1964, the first seven instalments to be of $100,000 each and the last two instalments of $650,000 each. The guarantee is secured by a second mortgage on a vessel owned by the non-consolidated subsidiary.

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

Accountants' Report

To the Board of Directors and Shareholders
of International Utilities Corporation

We have examined the balance sheets of International Utilities Corporation and International Utilities Corporation and subsidiaries (consolidated) as of December 31, 1963 and the related statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income and surplus present fairly the financial position of International Utilities Corporation and International Utilities Corporation and subsidiaries (consolidated) at December 31, 1963, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Toronto, Ontario,
February 24, 1964

The Gotaas-Larsen Companies

Combined balance sheet

as of December 31, 1963
with comparative figures as of
December 31, 1962

ASSETS	1963	1962
	(Stated in U.S. currency — note 1)	
Current assets:		
Cash in banks and aboard ships	$ 515,933	$ 491,349
Cash collateral account (note 3)	394,850	609,323
Secured notes receivable—instalments due within one year	853,507	853,507
Accounts receivable	1,731,782	1,384,875
Materials and supplies, at cost	368,442	255,053
Prepaid expenses	488,261	413,186
Total current assets	**4,352,775**	**4,007,293**
Non-current receivables	**1,424,297**	**2,330,173**
Investments in and advances to associated companies, at cost (note 2)	**2,360,686**	**2,240,558**
Property, plant and equipment, at cost:		
Floating equipment	29,840,584	23,401,231
Other	1,095,568	790,500
	30,936,152	**24,191,731**
Less accumulated depreciation	10,033,894	8,304,629
	20,902,258	**15,887,102**
Total assets	**$29,040,016**	**$24,465,126**
LIABILITIES		
Current liabilities:		
Loans payable (note 3)	$ 1,910,967	$ 1,388,490
Accounts payable and accrued liabilities	1,064,028	1,273,680
Total current liabilities	**2,974,995**	**2,662,170**
Unearned revenue	**551,391**	**328,040**
Long-term debt (note 3)	**13,005,192**	**10,341,793**
Shareholders' equity (note 3):		
Capital stock	145,115	142,690
Paid-in surplus	276,186	276,187
Earned surplus	12,087,137	10,714,246
Total shareholders' equity	**12,508,438**	**11,133,123**
Total liabilities	**$29,040,016**	**$24,465,126**

Combined statement of income and earned surplus

for the year ended December 31, 1963
with comparative figures for 1962

	1963	1962
Income:		
Operating revenues	$15,008,557	$14,726,875
Interest income	179,532	217,930
	15,188,089	**14,944,805**
Deduct:		
Operating and administrative expenses	11,396,113	11,389,633
Depreciation	1,717,521	1,546,073
Interest expense	688,192	623,964
Provision for income tax (note 4)	13,372	7,121
	13,815,198	**13,566,791**
Net income	1,372,891	1,378,014
Earned surplus at beginning of year	10,714,246	9,336,232
Earned surplus at end of year	**$12,087,137**	**$10,714,246**

See page 23 for notes to financial statements which are an integral part of these statements.

The Gotaas-Larsen Companies

Notes to financial statements for the year 1963

1. Principles of Combination:

Included in the accompanying financial statements are the accounts of sixteen affiliated companies engaged in the shipping and related business. Such companies are under the common control of International Utilities Corporation. All material intercompany transactions have been eliminated.

The accounts of the companies are maintained in U.S. currency except for certain South American companies, the accounts of which are converted to U.S. currency at the appropriate exchange rates.

2. Investments in Associated Companies:

The principal associated companies are A/S Skaugaas (Norway) and Gotaas-Larsen A/S (Norway), which are 40% owned by Gotaas-Larsen Limited (Nassau). The underlying net book equity applicable to these investments exceeded their cost by $500,000 at December 31, 1963, and the equity in net earnings amounted to $280,000 and $172,000 for the years ended December 31, 1963 and 1962, respectively.

3. Details of Loans Payable and Long-Term Debt are as follows:

	December 31, 1963	
	Current liabilities	Long-term debt
Notes payable secured:		
The Chase Manhattan Bank, 5½%, maturing monthly to 1967	$ 11,666	$ 525,010
The Chase Manhattan Bank, 6%, maturing monthly to 1966	780,951	778,843
The Provident Tradesmen's Bank and Trust Co., 5¼%, maturing annually to 1972	100,000	1,900,000
Den Norske Creditbank, 6¼%, maturing quarterly to 1966	35,000	350,000
Metropolitan Life Insurance Co., 5½%, maturing monthly to 1965	179,000	2,273,000
Kawasaki Dockyard Co., Ltd., 5½%, maturing semi-annually to 1970	304,350	3,652,200
Total secured	**1,410,967**	**9,479,053**
Notes payable unsecured:		
5% subordinated debentures, due December 31, 1965, including $495,139 of accrued interest	–	2,255,139
Andrew Weir & Co., Ltd. and The South American Saint Line Ltd., maturing annually to 1967	100,000	300,000
Trygve Gotaas	300,000	–
International Utilities Inc.	100,000	971,000
	$1,910,967	**$13,005,192**

The amount due The Provident Tradesmen's Bank and Trust Co. is guaranteed by International Utilities Corporation. The secured notes payable are secured by naval mortgages on floating equipment and, in most instances, by assignment of moneys payable under charter party or ship sales agreements. Assigned monthly charter hire receipts relating to the notes payable to Metropolitan Life Insurance Co. are deposited in a cash collateral account for payment of monthly instalments under the loan agreement. Since the funds to meet the instalments on the Metropolitan and 5½% Chase notes arise from monthly charter hire receipts, only the instalments due in the month subsequent to the balance sheet date have been classified as current liabilities.

The terms of the secured notes place restrictions on the acquisition and disposition of capital assets and the creation of additional indebtedness, and prohibit the payment of dividends (other than stock dividends) and the purchase of shares of the borrowers' capital stock. Payments of principal and interest on the subordinated debentures may only be made if certain provisions of the note agreements regarding working capital, net worth and the ratio of floating equipment to outstanding debt are complied with.

4. Income Taxes:

The tax laws of the various countries in which The Gotaas-Larsen Companies operate are such that their income is substantially free of income taxes.

5. Commitments:

(a) Time charter agreements:

The companies are obligated under time charter agreements, expiring from 1973 to 1975, covering seven vessels. Hire payments, which aggregated $4,900,000 during 1963, decline during the remaining term of the agreements and are generally subject to renegotiation.

(b) Vessel construction agreements:

The companies have open commitments aggregating approximately $24,000,000 for the purchase of five vessels now under construction. Two of the vessels will be delivered in late 1964 and the remainder in 1965.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

Accountants Report

To the Board of Directors and Shareholders
International Utilities Corporation:

We have examined the combined balance sheet of The Gotaas-Larsen Companies as of December 31, 1963 and the related statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements present fairly, on a combined basis, the financial position of The Gotaas-Larsen Companies at December 31, 1963 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

New York, N.Y.
February 17, 1964

International Utilities Corporation and subsidiaries

Comparative ten-year record

FINANCIAL[1]	1963	1962	1961
Consolidated net income:			
Excluding gain on disposition of investments	$ 7,802,479	$ 7,032,806	$ 6,584,771
Gain on disposition of investments (net)	1,326,788	1,530,163	3,252,950
Total	**$ 9,129,267**	**$ 8,562,969**	**$ 9,837,721**
Earned per share of common stock:[2]			
Excluding gain on disposition of investments	1.26	1.16	1.09
Including gain on disposition of investments	1.52	1.47	1.75
Dividends per common share[2]	.80	.77½	.75
Earned surplus (consolidated)	43,122,248	39,360,988	35,905,026
Shareholders' equity (consolidated)	96,787,712	79,523,747	75,811,013
Total assets (consolidated)	$217,539,578	$190,531,419	$183,565,799
Shares outstanding:			
$2 convertible preferred	581,496	582,934	583,134
Common[2]	5,572,563	4,975,918	4,957,608
STATISTICAL			
Number of customers at end of year:			
Natural gas	222,822	214,806	204,126
Electric	62,523	61,274	58,557
Total	**285,345**	**276,080**	**262,683**
			(000 omitted)
Revenue – sale of natural gas:			
Residential	$ 20,021	$ 19,769	$ 18,276
Commercial	10,795	10,480	9,603
Industrial, etc.	9,080	8,231	7,592
Other subsidiaries – eliminated on consolidation	205	163	95
	40,101	**38,643**	**35,566**
Rate deficiency credit – less amortization	(425)	(650)	(650)
Total	**$ 39,676**	**$ 37,993**	**$ 34,916**
MCF natural gas sold:			
Residential	38,770	38,547	35,930
Commercial	29,916	28,810	26,722
Industrial, etc.	45,520	41,327	38,331
Other subsidiaries	802	650	401
Total	**115,008**	**109,334**	**101,384**
Revenue – sale of electricity:			
Residential	$ 3,343	$ 3,147	$ 2,749
Commercial	3,607	3,152	2,782
Power	3,249	3,172	2,996
Other sales, including rural and municipal	2,006	1,922	1,755
Total	**$ 12,205**	**$ 11,393**	**$ 10,282**
KWH electricity sold:			
Residential	104,825	93,536	79,876
Commercial	71,271	60,163	52,430
Power	109,205	102,075	95,672
Other sales, including rural and municipal	85,960	77,314	65,913
Total	**371,261**	**333,088**	**293,891**

(1) The amounts for the years subsequent to 1960 are expressed in Canadian currency and include income arising in United States currency which has been converted on a dollar-for-dollar basis. For the year 1960 and prior the amounts shown are expressed in United States currency, with the Canadian currency accounts of the subsidiaries included therein on a dollar-for-dollar basis.

(2) Based on average shares outstanding during the year 1963 (574,532 common shares issued in August 1963 in exchange for the capital shares of the Gotaas-Larsen companies). The number of common shares, earnings per share and dividends per share for prior years have been adjusted to basis of shares outstanding at the end of each year after giving effect to (1) the 100% conversion of $1.40 convertible preferred stock, (2) the share-for-share distribution of common stock made on August 31, 1957 and (3) the two-for-one stock split which became effective May 15, 1963.

1960	1959	1958	1957	1956	1955	1954
$ 5,936,065	$ 5,314,234	$ 3,911,110	$ 3,634,795	$ 3,986,800	$ 3,574,321	$ 2,973,044
576,922	830,126	2,134,752	3,540,486	592,556	3,217,154	511,819
$ 6,512,987	**$ 6,144,360**	**$ 6,045,862**	**$ 7,175,281**	**$ 4,579,356**	**$ 6,791,475**	**$ 3,484,863**
1.04	1.07	.80	.74	.82	.74	.61
1.16	1.24	1.23	1.47	.94	1.40	.72
.70	.62½	.55	.50	.47½	.40	.36¼
29,577,327	27,277,214	24,199,513	21,104,629	16,342,556	14,575,061	9,684,298
65,654,347	59,750,111	43,371,124	40,208,591	35,369,105	33,517,444	28,478,430
$170,458,627	$161,669,038	$147,986,588	$124,502,398	$107,909,886	$96,656,381	$91,543,281
405,000	350,000	–	–	–	–	–
4,929,862	4,920,360	4,896,678	4,886,166	4,875,276	4,862,024	4,838,348
185,885	176,252	163,119	150,142	138,973	128,942	118,798
46,082	44,055	41,592	38,094	35,642	34,833	31,811
231,967	**220,307**	**204,711**	**188,236**	**174,615**	**163,775**	**150,609**
$ 17,026	$ 14,340	$ 11,427	$ 10,850	$ 10,210	$ 9,438	$ 8,428
8,279	7,032	5,764	5,480	5,126	4,850	4,308
7,184	6,274	5,392	5,348	4,977	4,356	3,879
72	48	17	100	213	189	128
32,561	**27,694**	**22,600**	**21,778**	**20,526**	**18,835**	**16,743**
(650)	2,375	–	–	(75)	(75)	(152)
$ 31,911	**$ 30,069**	**$ 22,600**	**$ 21,778**	**$ 20,451**	**$ 18,760**	**$ 16,591**
34,546	33,660	29,713	28,796	28,004	26,099	23,017
24,051	23,448	21,275	20,549	19,585	18,710	16,648
36,833	37,020	34,536	33,906	31,762	27,858	23,648
272	232	90	569	1,487	1,361	920
95,702	**94,360**	**85,614**	**83,820**	**80,838**	**74,029**	**64,233**
$ 2,023	$ 1,831	$ 1,596	$ 1,330	$ 1,236	$ 1,132	$ 1,024
1,791	1,595	1,388	1,045	958	889	843
2,638	2,242	1,876	1,785	1,647	1,421	1,071
1,298	1,307	1,062	874	772	607	493
$ 7,750	**$ 6,975**	**$ 5,922**	**$ 5,034**	**$ 4,613**	**$ 4,049**	**$ 3,432**
58,368	51,411	43,018	36,372	32,565	28,680	25,295
34,747	30,839	26,219	20,085	18,181	16,020	15,401
85,712	76,110	64,361	61,602	56,907	46,838	32,408
57,703	58,544	47,913	34,867	29,377	21,454	16,518
236,530	**216,904**	**181,511**	**152,926**	**137,030**	**112,994**	**89,624**

International Utilities Corporation

Policy and aims of system companies

To provide dependable gas and electric service to their customers at the lowest rates which are economically sound.
To give stable employment at fair wages and under good working conditions.
To earn for those who have invested their savings in this enterprise a fair return on their investment.
The companies seek to fulfill their civic obligations by taking an active part in movements designed to bring about progress and betterment in the communities they serve.

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